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# **BUDGET ENFORCEMENT ACT PREVIEW REPORT**

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### 13. PREVIEW REPORT

The Budget Enforcement Act of 1990 (BEA of 1990) was enacted as part of the Omnibus Budget Reconciliation Act of 1990. The BEA of 1990 established, through fiscal year 1995, annual limits, or “caps,” on discretionary spending, and a pay-as-you-go requirement that legislation affecting direct spending or receipts not increase the deficit. An across-the-board reduction of non-exempt spending, known as “sequestration,” enforces compliance with these constraints. The Budget Enforcement Act of 1997 (BEA of 1997), which was enacted as part of the Balanced Budget Act of 1997 (BBA of 1997), extended, through 2002, BEA limits on discretionary spending and requirements for pay-as-you-go legislation. The Transportation Equity Act for the 21st Century (TEA-21) further modified the discretionary caps by creating new caps for highway and mass transit outlays.

The BEA requires that OMB issue a report on the impact of each piece of legislation seven days after enactment. Three additional reports throughout the year are required on the overall status of discretionary and pay-as-you-go legislation. This Preview Report, the first of the three required overall status reports, provides the status of discretionary appropriations and pay-as-you-go legislation based on laws enacted as of the end of the 105th Congress. In addition, it explains the differences between the OMB and CBO estimates of the discretionary caps.

The OMB estimates use the economic and technical assumptions underlying the President’s budget submission, as required by the BEA. The OMB Update Report that will be issued in August, and the Final Report that will be issued after the end of the Congressional session, must also use these economic and technical assumptions. Estimates in the Update Report and the Final Report will only be revised to reflect laws enacted after the Preview Report.

#### **Discretionary Sequestration Report**

Discretionary programs are funded annually through the appropriations process. The scorekeeping guidelines accompanying the Budget Enforcement Act of 1990, as amended by the Omnibus Budget and Reconciliation Act of 1993 (OBRA) and the Budget Enforcement Act of 1997, identify accounts with discretionary resources. The BEA of 1997, as modified by the Transportation Equity Act for the 21st Century (TEA-21) limits budget authority and outlays available for discretionary programs each year through 2002. For 1999, there are five separate categories of discretionary spending: defense, non-defense (excluding violent crime reduction spending), violent crime reduction spending, and highway and mass transit outlays.

For 2000, the law divides discretionary spending into four categories: violent crime reduction spending, highway outlays, mass transit outlays, and all other discretionary spending. For 2001 and 2002, the violent crime reduction category is eliminated. TEA-21 established highway and transit outlay caps through 2003. OMB monitors compliance with the discretionary spending limits throughout the fiscal year. Appropriations that cause a breach in the budget authority or outlay caps trigger a sequester to eliminate that breach.

*Adjustments to discretionary limits.*—The BEA permits certain adjustments to the discretionary limits—also known as caps. On December 10, 1998, the Office of Management and Budget submitted the Final Sequestration Report for 1999 required by the BEA. That report described adjustments permitted by the BEA as of the time the report was issued. The caps resulting from these adjustments are the starting points for this Preview Report. Included in this report are cap adjustments for changes in concepts and definitions, and estimates of emergency spending, which the BEA permits to be made at this time. Table 1 summarizes changes to the caps since 1990.

Several cap adjustments represent changes in concepts and definitions resulting from legislative action that reclassified certain programs. These actions shifted programs between the mandatory (i.e., direct spending) category and the discretionary category. For instance, several 1999 appropriations bills included provisions that modified mandatory programs. Since funding controlled by appropriations action is considered discretionary, the effects of these provisions are recorded as adjustments to the caps. Several 1999 authorizing bills included provisions that modified appropriated spending levels. The caps have been adjusted for these provisions as well.

After consultation with the Congress and the Congressional Budget Office, OMB has reclassified several programs beginning in 2000. The net effect of these reclassifications increase the budget authority and outlay caps by approximately \$700 million in 2000, 2001 and 2002. The following programs were reclassified from mandatory to discretionary: the non-basic State grant portion of Education’s rehabilitation services and disability research account, the Health and Human Services’s injury compensation program and Treasury’s small airports customs fees. The following programs were reclassified from discretionary to mandatory: the National Oceanic and Atmospheric Administration’s (NOAA) damage assessment revolving fund for Prince William Sound restoration, NOAA’s corp officers’ retirement benefits, Defense’s contributions for burden-sharing account, and the receipts for the Federal Hous-

Table 13–1. HISTORICAL SUMMARY OF CHANGES TO DISCRETIONARY SPENDING LIMITS

(In billions of dollars)

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>TOTAL DISCRETIONARY</b>													
<b>Statutory Caps as set in OBRA 1990, OBRA 1993, 1997</b>													
BBA .....	BA	491.7	503.4	511.5	510.8	517.7	519.1	528.1	530.6	533.0	537.2	542.0	551.1
	OL	514.4	524.9	534.0	534.8	540.8	547.3	547.3	547.9	559.3	564.3	564.4	560.8
<b>Adjustments:</b>													
Changes in Concepts and Definitions .....	BA	.....	7.7	8.2	8.2	8.8	–0.6	–0.4	3.1	–0.2	–0.1	0.2	0.2
	OL	.....	1.0	2.4	2.3	3.0	–0.5	–2.6	–2.8	–0.3	0.1	–0.1	–0.2
Emergency Requirements .....	BA	0.9	8.3	4.6	12.2	7.7	5.1	9.3	5.7	15.0	0.1	.....	.....
	OL	1.1	1.8	5.4	9.0	10.1	6.4	8.1	7.0	14.8	3.8	1.8	0.9
Changes in Inflation .....	BA	.....	–0.5	–5.1	–9.5	–11.8	3.0	2.6	0.0	N/A	N/A	N/A	N/A
	OL	.....	–0.3	–2.5	–5.8	–8.8	1.8	2.3	0.9	N/A	N/A	N/A	N/A
Credit Reestimates, IRS Funding, Debt Forgiveness, IMF, CDRs, International Organization Arrearages .....	BA	0.2	0.2	13.0	0.6	0.7	0.1	0.2	0.9	19.4	.....	.....	.....
	OL	0.3	0.3	0.8	0.8	0.9	0.1	0.3	0.6	1.1	0.2	0.1	0.2
Adjustment pursuant to Sec. 2003 of P.L. 104–19 <sup>1</sup> .....	BA	.....	.....	.....	.....	–15.0	–0.1	–0.1	N/A	N/A	N/A	N/A	N/A
	OL	.....	.....	.....	.....	–1.1	–3.5	–2.4	–1.5	N/A	N/A	N/A	N/A
<b>Special Allowances:</b>													
Discretionary new budget authority .....	BA	.....	3.5	2.9	2.9	2.9	.....	.....	.....	N/A	N/A	N/A	N/A
	OL	.....	1.4	2.2	2.6	2.7	1.1	0.5	0.1	N/A	N/A	N/A	N/A
Outlay allowance .....	BA	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
	OL	2.6	1.7	0.5	1.0	.....	.....	.....	1.2	.....	.....	.....	.....
Operation Desert Shield/Desert Storm .....	BA	44.2	14.0	0.6	*	*	.....	.....	.....	N/A	N/A	N/A	N/A
	OL	33.3	14.9	7.6	2.8	1.1	.....	.....	.....	N/A	N/A	N/A	N/A
Adjustment to reach discretionary spending limits included in the 1997 Bipartisan Budget Agreement .....	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	–6.9	N/A	N/A	N/A	N/A
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.9	N/A	N/A	N/A	N/A
TEA–21 Adjustment (Net) <sup>2</sup> .....	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	–0.9	–0.9	–0.9	–0.9
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1	3.2	5.1	6.0
<b>Adjustments Pursuant to TEA–21: <sup>3</sup></b>													
Mass Transit Category Outlays .....	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	.....	.....	.....
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	–0.6	–0.3	–0.3
Highway Category Outlays .....	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	.....	.....	.....
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.1	–0.0	–0.3
<b>Total, Adjustments .....</b>	BA	<b>45.4</b>	<b>33.2</b>	<b>24.2</b>	<b>14.3</b>	<b>–6.7</b>	<b>7.5</b>	<b>11.7</b>	<b>2.8</b>	<b>33.4</b>	<b>–0.9</b>	<b>–0.7</b>	<b>–0.7</b>
	OL	<b>37.2</b>	<b>20.8</b>	<b>16.4</b>	<b>12.8</b>	<b>7.8</b>	<b>5.5</b>	<b>6.3</b>	<b>12.4</b>	<b>16.8</b>	<b>6.7</b>	<b>6.7</b>	<b>6.2</b>
<b>Preview Report Spending Limits <sup>4</sup> .....</b>	BA	<b>537.1</b>	<b>536.6</b>	<b>535.7</b>	<b>525.1</b>	<b>511.0</b>	<b>526.7</b>	<b>539.7</b>	<b>533.5</b>	<b>566.4</b>	<b>536.3</b>	<b>541.3</b>	<b>550.4</b>
	OL	<b>551.6</b>	<b>545.7</b>	<b>550.4</b>	<b>547.6</b>	<b>548.6</b>	<b>552.7</b>	<b>553.7</b>	<b>560.2</b>	<b>576.1</b>	<b>570.9</b>	<b>571.0</b>	<b>567.0</b>

\* Less than \$50 million.

<sup>1</sup>P.L. 104–19, Emergency Supplemental Appropriations for Additional Disaster Assistance, for Anti-Terrorism Initiatives, for Assistance in the Recovery from the Tragedy that occurred at Oklahoma City, and Rescissions Act 1995, was signed into law on July 27, 1995. Section 2003 of that bill directed the Director of OMB to make a downward adjustment in the discretionary spending limits for 1995–1998 by the aggregate estimate by the amount of reductions in new budget authority and outlays for discretionary programs resulting from the provisions of the bill, other than emergencies appropriations.

<sup>2</sup>Sec. 8101(a) of P.L. 105–178, the Transportation Equity Act for the 21st Century (TEA–21), which was signed by the President on June 6, 1998, established two new discretionary spending categories: Highway and Mass Transit. Sec. 810(b) of TEA–21 provided for an offsetting adjustment in the existing discretionary spending limits.

<sup>3</sup>Sec. 8101(d) of P.L. 105–178 requires OMB to make an adjustment to the Highway and Mass Transit Category caps based on actual receipts data (Highway category only) and revised technical assumptions.

<sup>4</sup>Reflects combined Defense Discretionary, Non-Defense Discretionary (Excluding Crime), Violent Crime Reduction, Highway Category, and Mass Transit Category, and Mass Transit Category spending limits.

ing Administration's mutual mortgage insurance program.

The caps have also been adjusted upward for contingent emergency appropriations (i.e., funding for amounts that the President designates as "emergency requirements" and that Congress so designates in law) that have been released since the transmittal of the End of Session Sequestration Report. These included funds for the Corps of Engineers that will help repair damage caused by Hurricane Georges, which resulted in navigational problems in Alabama, Louisiana, Florida, Mississippi, Puerto Rico and the Virgin Islands. Contingent emergency funds were also released to a number of Federal agencies to support efforts to make Federal information technology systems Year 2000 com-

pliant and for outreach to non-Federal entities in support of the Year 2000 Conversion Council.

The Transportation Equity Act for the 21st Century (TEA–21) requires two adjustments to the Highway and Transit category discretionary outlay caps based upon changes in receipts to the Highway Trust Fund and changing technical assumptions for outlays. The outlay cap for the Highway category increases because of additional budgetary resources resulting from revised Highway Trust Fund receipts. The spending limits for both categories decrease in outlays due to revised technical assumptions. Table 2 shows the impact upon the discretionary spending limits of the adjustments being made in this Preview Report.

Table 13–2. DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

		1998	1999	2000	2001	2002
<b>NON-DEFENSE DISCRETIONARY SPENDING, EXCLUDING SPECIAL CATEGORIES</b>						
<b>End-of-Session Report Spending Limits</b> .....	BA	256,148	284,090	N/A	N/A	N/A
	OL	286,325	273,999	N/A	N/A	N/A
<b>Adjustments:</b>						
Contingent Emergency Appropriations Released .....	BA	.....	443	N/A	N/A	N/A
	OL	.....	325	N/A	N/A	N/A
Note: Outyear outlay effect included under "Other Discretionary" below.						
Subtotal, Adjustments for the Preview Report .....	BA	.....	443	N/A	N/A	N/A
	OL	.....	325	N/A	N/A	N/A
<b>Preview Report Spending Limits</b> .....	BA	256,148	284,533	N/A	N/A	N/A
	OL	286,325	274,324	N/A	N/A	N/A
<b>Anticipated Other Adjustments:</b>						
Contingent Emergency Releases and Other Emergencies:						
Natural disasters and other emergencies .....	BA	.....	3,250	N/A	N/A	N/A
	OL	.....	861	N/A	N/A	N/A
Expected release of contingent disaster emergency funding provided in P.L. 105–277 .....	BA	.....	1,007	N/A	N/A	N/A
	OL	.....	395	N/A	N/A	N/A
Emergency funding for Wye River Memorandum .....	BA	.....	900	N/A	N/A	N/A
	OL	.....	621	N/A	N/A	N/A
Note: Outyear outlay effect included under "Other Discretionary" below.						
Subtotal, Anticipated Other Adjustments .....	BA	.....	5,157	N/A	N/A	N/A
	OL	.....	1,877	N/A	N/A	N/A
<b>Preview Report Spending Limits, Including Anticipated Other Adjustments</b> .....	BA	256,148	289,690	N/A	N/A	N/A
	OL	286,325	276,201	N/A	N/A	N/A
<b>DEFENSE DISCRETIONARY SPENDING</b>						
<b>End-of-Session Report Spending Limits</b> .....	BA	271,832	275,651	N/A	N/A	N/A
	OL	269,079	270,206	N/A	N/A	N/A
<b>Adjustments:</b>						
Contingent Emergency Appropriations Released .....	BA	.....	396	N/A	N/A	N/A
	OL	.....	214	N/A	N/A	N/A
Note: Outyear outlay effect included under "Other Discretionary" below.						
Subtotal, Adjustments for the Preview Report .....	BA	.....	396	N/A	N/A	N/A
	OL	.....	214	N/A	N/A	N/A
<b>Preview Report Spending Limits</b> .....	BA	271,832	276,047	N/A	N/A	N/A
	OL	269,079	270,420	N/A	N/A	N/A
<b>Anticipated Other Adjustments:</b>						
Contingent Emergency Releases and Other Emergencies:						
Expected release of contingent emergency funding .....	BA	.....	3,320	N/A	N/A	N/A
	OL	.....	1,862	N/A	N/A	N/A
Expected release of contingent funding provided in P.L. 105–277 for uranium purchase and plutonium disposition .....	BA	.....	525	N/A	N/A	N/A
	OL	.....	345	N/A	N/A	N/A
Note: Outyear outlay effect included under "Other Discretionary" below.						
<b>Preview Report Spending Limits, Including Further Adjustments</b> .....	BA	271,832	279,892	N/A	N/A	N/A
	OL	269,079	272,627	N/A	N/A	N/A
<b>VIOLENT CRIME REDUCTION SPENDING</b>						
<b>End-of-Session Spending Limits</b> .....	BA	5,500	5,800	4,500	N/A	N/A
	OL	4,833	4,953	5,554	N/A	N/A
<b>Adjustments:</b>						
No Adjustments .....	BA	.....	.....	.....	N/A	N/A
	OL	.....	.....	.....	N/A	N/A

Table 13-2. DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		1998	1999	2000	2001	2002
Preview Report Spending Limits .....	BA OL	5,500 4,833	5,800 4,953	4,500 5,554	N/A N/A	N/A N/A
<b>HIGHWAY CATEGORY</b>						
End-of-Session Report Spending Limits .....	BA OL	N/A N/A	21,991	24,478	26,230	26,992
Adjustments:						
Revised Technical Assumptions .....	BA OL	N/A N/A		-297	-608	-562
Revised Trust Fund Revenue Assumptions .....	BA OL	N/A N/A		393	597	233
Preview Report Spending Limits .....	BA OL	N/A N/A	21,991	24,574	26,219	26,663
<b>MASS TRANSIT CATEGORY</b>						
End-of-Session Report Spending Limits .....	BA OL	N/A N/A	4,401	4,761	5,190	5,709
Adjustments:						
Revised Technical Assumptions .....	BA OL	N/A N/A		-644	-302	-325
Preview Report Spending Limits .....	BA OL	N/A N/A	4,401	4,117	4,888	5,384
<b>OTHER DISCRETIONARY SPENDING</b>						
End-of-Session Report Other Discretionary Spending Limits .....	BA OL	N/A N/A	N/A N/A	531,694 536,073	540,951 538,970	549,981 534,081
Adjustments:						
Changes in Concepts and Definitions:						
Reclassification of accounts agreed to by "scorekeepers" .....	BA OL	N/A N/A	N/A N/A	677 675	691 688	706 703
Statutory and Other Shifts Between Categories .....	BA OL	N/A N/A	N/A N/A	-657 -281	-398 -374	-390 -498
Changes in appropriated spending contained in PAYGO bills .....	BA OL	N/A N/A	N/A N/A	57 75	80 87	85 85
Contingent Emergency Appropriations Released .....	BA OL	N/A N/A	N/A N/A			
Reestimate of Emergency Spending .....	BA OL	N/A N/A	N/A N/A	180 -22	50 519	35 566
Subtotal, Adjustments for the Preview Report .....	BA OL	N/A N/A	N/A N/A	77 627	373 970	401 891
Preview Report Spending Limits .....	BA OL	N/A N/A	N/A N/A	531,771 536,700	541,324 539,940	550,382 534,972
Anticipated Other Adjustments:						
EITC Tax Compliance Initiative .....	BA OL	N/A N/A	N/A N/A	144 144	145 145	146 146
Continuing Disability Reviews (CDRs) .....	BA OL	N/A N/A	N/A N/A	405 373	405 405	405 405
International Organizations Arrearage Payments .....	BA OL	N/A N/A	N/A N/A	409	409	
Adoption Incentive Payments .....	BA OL	N/A N/A	N/A N/A	20 2	20 13	20 20
Contingent Emergency Releases and Other Emergencies:						
Natural disasters and other emergencies .....	BA OL	N/A N/A	N/A N/A	1,365	699	325
Expected release of contingent disaster emergency funding .....	BA OL	N/A N/A	N/A N/A	1,408	385	167
Emergency funding for Wye River Memorandum .....	BA OL	N/A N/A	N/A N/A	92	95	42
Expected release of contingent funding provided in P.L. 105-277 for uranium purchase and plutonium disposition .....	BA OL	N/A N/A	N/A N/A	30	100	50
Subtotal, Anticipated Other Adjustments .....	BA OL	N/A N/A	N/A N/A	978 3,414	570 2,251	571 1,155

Table 13-2. DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		1998	1999	2000	2001	2002
Preview Report Spending Limits, Including Anticipated Other Adjustments .....	BA	N/A	N/A	532,749	541,894	550,953
	OL	N/A	N/A	540,114	542,191	536,127
<b>TOTAL DISCRETIONARY SPENDING</b>						
End-of-Session Total Discretionary Spending Limits .....	BA	533,480	565,541	536,194	540,951	549,981
	OL	560,237	575,550	570,866	570,390	566,782
Preview Report Total Discretionary Spending Limits .....	BA	533,480	566,380	536,271	541,324	550,382
	OL	560,237	576,089	570,945	571,047	567,019
Preview Report Total Discretionary Spending Limits, Including Anticipated Other Adjustments .....	BA	533,480	575,382	537,249	541,894	550,953
	OL	560,237	580,173	574,359	573,298	568,174

Note: The Bipartisan Budget Agreement of 1997 included: separate spending limits for Non-Defense Discretionary (Excluding Violent Crime Reduction) Spending, Violent Crime Reduction Spending, and Defense Discretionary Spending for 1998 and 1999; separate spending limits for Discretionary (Excluding Violent Crime Reduction) Spending, Violent Crime Reduction Spending, and Defense Discretionary Spending for 1998 and 1999; separate spending limits for Discretionary (Excluding Violent Crime Reduction) Spending and Violent Crime Reduction Spending for 2000; and, a single spending limit for Total Discretionary Spending for 2001 and 2002.

The Administration has included several proposals in the budget that would result in cap adjustments upon their enactment. They are described below.

*Adjustments to the Limits That Would be Made Under Existing Adjustment Authority:*

- *Earned Income Tax Credit (EITC) Compliance Initiative.*—The budget contains funding for EITC compliance initiatives, including the detection and enforcement of EITC eligibility in order to reduce the number of erroneous EITC claims. Adjustments are limited to the budget authority and outlay estimates authorized in P.L. 105–33. The 1999 Treasury and General Government Appropriations Act provided \$143 million for EITC compliance. The budget proposes \$144 million in funding for 2000.
- *Continuing Disability Reviews.*—The budget includes funding for additional continuing disability reviews (CDRs) under the heading, “Limitation on Administrative Expenses” for the Social Security Administration. The law limits adjustments to the budget authority and outlay estimates authorized in P.L. 105–33, the Balanced Budget Act of 1997. CDRs are conducted to verify that recipients of Social Security disability insurance benefits and Supplemental Security Income benefits for persons with disabilities continue to meet the definition of disability. The 1999 Labor, Health and Human Services, Education, and Related Agencies Appropriations Act provided \$355 million for CDRs in 1999. The budget proposes \$405 million in funding for 2000 through 2002.
- *Allowance for International Organizations Arrearages funding.*—The BBA limited the amount of the cap adjustment for funding for arrearages for international organizations, international peacekeeping and multilateral development banks to \$1.884 billion for 1998 through 2000. A total of \$1,014 million was provided for international arrearage payments in the 1999 appropriations acts, and \$461 million was provided prior to that. The budget proposes \$446 million for U.N. and other

international organizations arrearage payments, of which \$409 million would be covered by the cap adjustment.

- *Adoption Incentive Payments.*—The Adoption and Safe Families Act of 1997 authorizes bonus payments to States that increase the number of adoptions from the foster care system. It provides for a discretionary cap adjustment for appropriations up to \$20 million annually in each of the years 1999 through 2003. It is assumed that the cost of adoption bonuses will be offset by reductions in mandatory foster care costs. \$20 million is requested for this program in 2000, 2001 and 2002.
- *Anticipated Release of Previously Enacted Contingent Emergency Appropriations.*—The budget includes allowances for previously enacted contingent emergency appropriations that the Administration expects will be released in 1999. This includes funding that was previously appropriated for the Federal Emergency Management Agency’s and the Small Business Administration’s disaster relief accounts and funding appropriated to the Department of Energy to reduce the amount of excess weapons-grade uranium and plutonium in Russia.
- *Contingent Emergency Supplemental Appropriations.*—The budget contains emergency supplemental requests for appropriations in support of the Wye River Memorandum to help restore positive momentum to the Middle East peace process. The \$900 million requested, which is offset in budget authority, will help meet the Palestinians’ economic development needs in the West Bank and Gaza, and strengthen democratic institutions. The funds will also help Israel offset some of the costs of redeploying its forces and enable it to meet strategic defense requirements, as well as allow Jordan to maintain the operational capabilities of its forces and support further economic development there.

The actual adjustments to the discretionary spending caps to be included in subsequent sequester reports cannot be determined until all appropriations have been

enacted. Table 3 compares the President's discretionary proposals to the proposed caps for 1999 through 2002. The estimates for 1999 are based on BEA scoring of enacted appropriations bills and have been adjusted for subsequent emergency releases.

Table 13-3. BUDGET PROPOSALS

(in millions of dollars)

		1999	2000	2001	2002
<b>Non-Defense Discretionary Spending, Excluding Special Categories</b>					
Estimated Limits .....	BA	284,533	NA	NA	NA
	OL	274,324	NA	NA	NA
President's Proposals .....	BA	284,371	NA	NA	NA
	OL	272,553	NA	NA	NA
President's Proposals Compared to the Limits .....	BA	-162	NA	NA	NA
	OL	-1,771	NA	NA	NA
<b>Defense Discretionary</b>					
Estimated Limits .....	BA	276,047	NA	NA	NA
	OL	270,420	NA	NA	NA
President's Proposals .....	BA	276,041	NA	NA	NA
	OL	269,124	NA	NA	NA
President's Proposals Compared to the Limits .....	BA	-6	NA	NA	NA
	OL	-1,296	NA	NA	NA
<b>Violent Crime Reduction Spending</b>					
Estimated Limits .....	BA	5,800	4,500	NA	NA
	OL	4,953	5,554	NA	NA
President's Proposals .....	BA	5,797	4,500	NA	NA
	OL	4,946	5,554	NA	NA
President's Proposals Compared to the Limits .....	BA	-3	.....	.....	.....
	OL	-7	.....	.....	.....
<b>Highway Category Spending</b>					
Estimated Limits .....	BA	.....	.....	.....	.....
	OL	21,991	24,574	26,219	26,663
President's Proposals .....	BA	.....	.....	.....	.....
	OL	21,568	24,574	26,219	26,663
President's Proposals Compared to the Limits .....	BA	.....	.....	.....	.....
	OL	-423	.....	.....	.....
<b>Mass Transit Category Spending</b>					
Estimated Limits .....	BA	.....	.....	.....	.....
	OL	4,401	4,117	4,888	5,384
President's Proposals .....	BA	.....	.....	.....	.....
	OL	3,942	4,117	4,888	5,384
President's Proposals Compared to the Limits .....	BA	.....	.....	.....	.....
	OL	-459	.....	.....	.....
<b>Other Discretionary</b>					
Estimated Limits .....	BA	NA	532,749	541,894	550,953
	OL	NA	540,114	542,191	536,127
President's Proposals, Including Offsets to Discretionary Spending and Contingent Adjustments if No Social Security Reform is Enacted .....	BA	NA	532,743	527,306	532,069
	OL	NA	539,547	542,191	536,127
President's Proposals Compared to the Limits .....	BA	NA	-6	-14,588	-18,884
	OL	NA	-567	.....	.....
<b>Total Discretionary Spending</b>					
Estimated Limits .....	BA	566,380	537,249	541,894	550,953
	OL	576,089	574,359	573,298	568,174
President's Proposals .....	BA	566,209	537,243	527,306	532,069
	OL	572,133	573,792	573,298	568,174
President's Proposals Compared to the Limits .....	BA	-171	-6	-14,588	-18,884
	OL	-3,956	-567	.....	.....

*Sequester determinations.*—Seven days after enactment of an appropriations act, OMB must submit a report to Congress estimating the budget authority and

outlays provided by the legislation for the current year and the budget year. These estimates must be based on the economic and technical assumptions used in the



most recent President's budget. In addition, the report must include CBO estimates and explain the differences between the OMB and CBO estimates. The OMB estimates are used in all subsequent calculations to determine whether a breach of any of the budget authority or outlay caps has occurred and whether a sequester is required.

Compliance with the discretionary caps is monitored throughout the year. The first determination of whether a sequester is necessary for a given fiscal year occurs when OMB issues its Final Sequestration Report after Congress adjourns to end a session—near the beginning of the fiscal year. The monitoring process continues when Congress reconvenes for a new session. Appropriations for the fiscal year in progress that cause a breach in the caps would, if enacted before July 1st, trigger a sequester. If such a breach is estimated, a “within-session” sequestration report and Presidential sequestration order would be issued. For a breach that results from appropriations enacted on or after July 1st, reductions necessary to eliminate the breach are not applied to the budgetary resources available in the current year. Instead, the corresponding caps for the following fiscal year are reduced by the amount of the breach. A within-session sequester can only be caused by newly enacted appropriations. Reestimates of budget authority and outlays for already enacted funds cannot trigger a sequester.

OMB reported in its Final Sequestration Report to the President and the Congress that discretionary appropriations enacted for 1999 were within the prescribed spending limits.

*Sequester calculations.*—If either the discretionary budget authority or outlay caps are exceeded, an across-the-board reduction of sequestrable budgetary resources is required to eliminate the breach. The percentage re-

duction for certain special-rule programs is limited to two percent. Once this limit is reached, the uniform percentage reduction for all other discretionary sequestrable resources is increased to a level sufficient to achieve the required reduction. If both the budget authority and outlay caps are exceeded, a sequester would first be calculated to eliminate the budget authority breach. If estimated outlays remain above the cap, after applying the available outlay allowance, further reductions in budgetary resources to eliminate the outlay breach would be required.

*Comparison of OMB and CBO discretionary limits.*—Section 254(d)(5) of the BEA requires that this report explain the differences between OMB and CBO estimates for discretionary spending limits. Table 4 compares OMB and CBO limits for 1999 through 2002. CBO uses the discretionary limits from OMB's Final Sequestration Report as a starting point for adjustments in its Preview Report. This table excludes Presidential proposals.

CBO included \$570 million of contingent emergency funding that was released on January 12, 1999 in the Defense Discretionary caps for FY 1999. Due to timing constraints, OMB included this amount under “Anticipated Other Adjustments—Expected release of contingent emergency funding.” Differences in revised technical assumptions account for the majority of the outlay difference in both the Highway Category and the Mass Transit category. Differences in estimates of the effects of discretionary changes to mandatory accounts and changes in appropriated spending contained in PAYGO bills, as well as differences in the estimates of reclassifications agreed to by the scorekeepers account for the differences in the Overall Discretionary, Excluding Special Categories limits.

**Table 13–4. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS**

(In millions of dollars)

	1999	2000	2001	2002
<b>Non-defense Discretionary, Excluding Special Categories</b>				
CBO Preview Report limits:				
BA .....	284,531	N/A	N/A	N/A
OL .....	274,320	N/A	N/A	N/A
OMB Preview Report limits:				
BA .....	284,533	N/A	N/A	N/A
OL .....	274,324	N/A	N/A	N/A
Difference:				
BA .....	2	N/A	N/A	N/A
OL .....	4	N/A	N/A	N/A
<b>Defense Discretionary</b>				
CBO Preview Report limits:				
BA .....	276,617	N/A	N/A	N/A
OL .....	270,657	N/A	N/A	N/A
OMB Preview Report limits:				
BA .....	276,047	N/A	N/A	N/A
OL .....	270,420	N/A	N/A	N/A
Difference:				
BA .....	–570	N/A	N/A	N/A
OL .....	–237	N/A	N/A	N/A

**Table 13-4. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS—  
Continued**

(In millions of dollars)

	1999	2000	2001	2002
<b>Violent Crime Reduction</b>				
CBO Preview Report limits:				
BA .....	5,800	4,500	N/A	N/A
OL .....	4,953	5,554	N/A	N/A
OMB Preview Report limits:				
BA .....	5,800	4,500	N/A	N/A
OL .....	4,953	5,554	N/A	N/A
Difference:				
BA .....			N/A	N/A
OL .....			N/A	N/A
<b>Highways</b>				
CBO Preview Report limits:				
BA .....				
OL .....	21,991	25,325	27,176	27,448
OMB Preview Report limits:				
BA .....				
OL .....	21,991	24,574	26,219	26,663
Difference:				
BA .....				
OL .....		-751	-957	-785
<b>Mass Transit</b>				
CBO Preview Report limits:				
BA .....				
OL .....	4,401	4,633	4,965	5,542
OMB Preview Report limits:				
BA .....				
OL .....	4,401	4,117	4,888	5,384
Difference:				
BA .....				
OL .....		-516	-77	-158
<b>Overall Discretionary, Excluding Special Categories Limits</b>				
CBO Preview Report limits:				
BA .....	N/A	531,778	541,183	550,255
OL .....	N/A	536,858	539,380	534,360
OMB Preview Report limits:				
BA .....	N/A	531,771	541,324	550,382
OL .....	N/A	536,700	539,940	534,972
Difference:				
BA .....	N/A	-7	141	127
OL .....	N/A	-158	560	612
<b>Total Discretionary Spending</b>				
CBO Preview Report limits:				
BA .....	566,948	536,278	541,183	550,255
OL .....	576,322	572,370	571,521	567,350
OMB Preview Report limits:				
BA .....	566,380	536,271	541,324	550,382
OL .....	576,089	570,945	571,047	567,019
Difference:				
BA .....	-568	-7	141	127
OL .....	-233	-1,425	-474	-331

### Pay-as-you-go Sequestration Report

This section of the Preview Report discusses the enforcement procedures that apply to direct spending and receipts. The BEA defines direct spending as entitlement authority, the food stamp program, and budget authority provided by law other than in appropriations acts. The following are exempt from pay-as-you-go enforcement: Social Security, the Postal Service, legisla-

tion specifically designated as an emergency requirement, and legislation fully funding the Federal Government's commitment to protect insured deposits.

The BEA requires that any legislation enacted before October 1, 2002, affecting direct spending or receipts that increases the deficit will trigger an offsetting sequestration.

*Sequester determinations.*—Within seven days after the enactment of direct spending or receipts legislation,

OMB is to submit a report to Congress estimating the resulting change in outlays or receipts for the current year, the budget year, and the following four fiscal years. The estimates, which must rely on the economic and technical assumptions underlying the most recent President's budget, determine whether the pay-as-you-go requirement is met. The pay-as-you-go process requires that OMB maintain a "scorecard" that shows the cumulative deficit impact of such legislation. This Report shows how these past actions affect the upcoming fiscal year.

OMB no longer issues pay-as-you-go reports on legislation where OMB and CBO estimate zero or negligible budget impact. Prior to this change, roughly 65% of OMB's pay-as-you-go reports were on bills of this type.

Table 5 shows OMB estimates for legislation enacted through December 31, 1998. Pursuant to the BEA, the \$872 million of FY 1999 savings as shown in the Final Sequester Report for FY 1999 has, in effect, been removed from the pay-as-you-go scorecard. The FY 1999 impact of legislation enacted this year will be added to the balances of FY 2000 in the end-of-session report that OMB is to issue 15 days after the 1st session of the 106th Congress adjourns sine die. The current pay-as-you-go scorecard shows savings of \$2.9 billion for FY 2000 and a total of \$5.0 billion for FY 2000–2003. Under current law, these savings could be used to finance increases in mandatory programs or tax cuts without triggering a sequester. The Administration is proposing to remove the FY 2000 balances from the scorecard and to use the savings to offset defense spending.

### The President's Budget Proposals And The Budget Enforcement Act

This budget proposes that Social Security be reformed this year, and reserves the surplus until Social Security is reformed. Once Social Security is reformed, additional resources would be made available for Medicare, Universal Savings Accounts, defense and non-defense discretionary spending. The budget request for the Department of Defense (DOD) provides for substantial program expansion to ensure adequate funding levels for national security. Increases in non-DOD programs ensure continuity for critical functions of core government and provide for the Reserve for Priority Initiatives. The Reserve would provide resources for high

priority initiatives such as increased funding for the National Institutes of Health, investments that raise student achievement, and protecting Americans at home and abroad. If Social Security reform is not enacted, these additional resources would not be available, and defense and non-defense spending levels would have to be reduced to be consistent with the discretionary caps.

No contingent allocation of the surplus begins until 2001. This will allow the 2000 appropriations process to proceed while Social Security reform is being considered. In 2000, proposed spending for DOD and non-DOD programs is offset by various specific proposals, such as new or increased user fees. Consistent with recently enacted legislation, the budget also includes mandatory savings as offsets for discretionary spending. Mandatory spending initiatives and revenue initiatives are also offset in accordance with the pay-as-you-go provisions of the Budget Enforcement Act.

The 2001–2004 budget projections for discretionary spending, with the exceptions of the Department of Defense and some capital intensive long-term projects and advance appropriations, do not represent a policy projection, but an aggregate freeze at the 2000 policy levels. The estimates in the aggregate, including a reserve for priority initiatives, show the discretionary program levels the Administration will support if Social Security is reformed. However, the budget also provides levels that would be affordable if Social Security is not reformed, in order to reserve the surplus for Social Security.

### DOD discretionary spending

*Fiscal year 2000.* The request for the DOD assumes substantial program expansion in 2000. Expansion is possible in part because of lower inflation assumptions, providing full funding through advance appropriations for some military construction programs, and proposed rescissions of lower priority funding. In addition, the Administration proposes two BEA related changes to make increased DOD spending possible:

- *Transfer of existing PAYGO savings.* The Administration proposes to transfer previously enacted savings under the "pay-as-you-go" rules of the BEA to the discretionary side of the budget. This would support an increase of \$2.9 billion in defense programs.

Table 13–5. PAY-AS-YOU-GO LEGISLATION ENACTED AS OF DECEMBER 31, 1998

(In millions of dollars)

	1999 <sup>1</sup>	2000	2001	2002	2003	Total 2000–2004
<b>Total, Pay-as-you-go legislation enacted:</b>						
Revenue impact of enacted legislation .....	(–98)	3,696	1,778	754	1,958	8,186
Outlay impact of enacted legislation .....	(–774)	769	945	590	866	3,170
Total deficit impact of enacted legislation .....	(–872)	–2,927	–833	–164	–1,092	–5,016

<sup>1</sup> Per section 252 (b)(2)(c) of the BEA, the 1999 balances as shown in the Final Sequester Report for FY 1999 are no longer available to offset future legislation.

- *Scoring rule change to avoid a double count.* The Administration proposes to increase military retirement benefits, which would be scored as PAYGO. This would also require increases in accrued retirement benefits from DOD's military personnel accounts to the Military Retirement Trust fund of \$5.6 billion through 2004. The additional funding for these increases would be scored as discretionary spending under present rules. However, the discretionary payments do not affect the surplus, because they are offset dollar for dollar by receipts in the trust fund. Therefore, the Administration is proposing a new scoring rule, which would preclude scoring increases in intrabudgetary payments as discretionary, if they result from legislative increases in mandatory spending that have been scored as PAYGO.

*Fiscal years 2001–2004.* Defense spending levels in these years reflect the proposed policy and assume the enactment of Social Security reform.

- *If Social Security Reform is enacted,* the Administration proposes to allocate additional resources to accommodate an increase in the DOD program level of \$63.8 billion over five years, compared to the levels assumed in the 1999 budget.
- *If Social Security Reform is not enacted,* discretionary spending levels would be reduced to those assumed in the Balanced Budget Act of 1997 for 2001 through 2004.

### **Non-DOD discretionary spending**

Fiscal year 2000. The budget includes \$17.8 billion of additional spending for non-DOD discretionary programs that is offset within the caps on discretionary spending. The offsets come from specified mandatory spending reductions or revenue increases, repropoals of advance appropriations, additional advanced appropriations, and Federal tobacco revenues.

*Fiscal years 2001–2004.* Non-DOD spending levels in these years, like DOD spending levels, depend on the enactment of Social Security reform.

- *If Social Security Reform is enacted,* the Administration proposes to allocate additional resources to maintain an aggregate funding level that freezes spending at the 2000 policy levels and accommodates the outyear funding requirements for the Federal Aviation Administration, the National Aeronautics and Space Administration, and other capital intensive long-term projects. The offsets applied to the 2000 levels would be extended.
- *If Social Security Reform is not enacted,* discretionary spending levels would be reduced to those assumed in the Balanced Budget Act of 1997 for 2001 through 2004.

### **Reserve for Priority Initiatives.**

*Fiscal years 2001–2004.* The budget proposes a discretionary "Reserve for Priority Initiatives" that will provide \$30 billion in funding over five years to meet goals such as increasing funding for the National Institutes

of Health by nearly 50 percent by 2003, continuing to increase essential investments that raise student achievement, and protecting Americans at home and abroad. This fund can be accommodated only if Social Security is reformed.

**Mandatory Initiatives.** The budget proposes mandatory initiatives for decreasing class size and providing for child care, improving health care, reforming unemployment insurance, extending welfare to work, and many others. These initiatives total \$21.8 billion over five years. The budget proposes to offset these increases with savings in health care and student loan programs, and increases in revenue.

**Revenue Initiatives.** The budget includes several revenue initiatives, all of which are fully offset with other revenue changes. The President's plan targets tax relief to provide child-care assistance to working families and to provide support to Americans with long-term care needs. It provides several initiatives to promote education, including a school construction and modernization proposal. In addition, the President's plan includes initiatives to promote energy efficiency and environmental objectives, incentives to promote retirement savings, and extensions of certain expiring tax provisions, such as the welfare-to-work and work-opportunity tax credits.

**Budget process tools.** The Administration anticipates that Congress will continue its efforts to reform the budget process during the coming months and urges Congress to consider two budget process tools in particular—biennial budgeting and expedited rescission authority for the reasons given below. The President supports these improvements and looks forward to working with the sponsors of such legislation.

*Biennial budgeting.* Reaching agreement on budget priorities for two years would provide greater predictability and planning certainty to program administrators and beneficiaries. An arrangement that required the President's budget and the Congressional budget resolution to lock in (perhaps through a joint resolution) aggregate levels for each of two fiscal years—or more—would essentially codify the current practice of making a budget "deal" on the aggregates for several years and appropriating within those amounts. This arrangement has merit even if Congress continued to provide annual appropriations. However, making appropriations that cover two fiscal years would increase the predictability of funding and would also permit congressional committees to perform their oversight functions in the off year with less distraction.

*Expedited rescission authority.* The Supreme Court last year ruled the Line Item Veto Act unconstitutional, thereby eliminating the President's authority to cancel wasteful items in spending bills. However, under the Impoundment Control Act, the President continues to have authority to propose specific rescissions of spending to the Congress and to withhold the relevant funds for 45 days while such proposed rescissions are under

consideration. If the Congress does not act on the proposed rescissions during the 45 day period, the funds are released. Some Members of Congress have proposed to strengthen this rescission process by requiring the Congress to vote on all rescission items proposed by

the President. Such “expedited rescission” authority would be a useful tool for the President and Congress in their efforts to ensure the effective use of taxpayer dollars.